

Prepared for:
Florida Hurricane Catastrophe Fund



2014 Ratemaking Formula Report

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March 20, 2014

2014 RATEMAKING FORMULA REPORT

Agenda

- 1. What's New?**
- 2. Overall Indications**
- 3. Ratemaking Overview**
- 4. Premium, Rates and Coverage**
- 5. Other Topics of Interest**
- 6. Recap**
- 7. Questions**



1. What's New?

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What's New?

- **0% Exposure Trend (4th Year)**
- **Statutory Changes:**
 - Mandatory Cash Build-up Factor Stays at 25%
 - First Level Year Since 2008
 - No TICL Coverage Available
- **Per Company Limit /Retention Adjustment (-0.037% in 2014, -0.73% in 2013)**
- **Projected Pre-Event Notes Expense (\$35.5 Million in 2014, \$31.4 Million in 2013)**
- **Maximum mitigation credit/debit uncapped from 30%.**



2. Overall Indications

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Overall Indications

FHCF Reimbursement Premium (\$ Billions)

	FHCF
2013 Premium (Actual)	\$1.272
2014 Premium (Projected)	\$1.276
% Premium Change	0.32%
% Rate Change (Exposure adjusted)	0.32%

2014 RATEMAKING FORMULA REPORT

Overall Indications

Rate Changes by Type of Business

Type of Business	FHCF Layer (No change to Cash Build-up)
Residential	0.02%
Tenants	9.79%
Condominiums	2.97%
Mobile Home	0.87%
Commercial Habitational	0.37%
Total Rate Change	0.32%

2014 RATEMAKING FORMULA REPORT

Overall Indications

Rate On Line Changes

LIMIT (FHCF)			FHCF Layer		Change
			2013	2014	
\$17,000,000,000	Mandatory	Actual 2013	7.48%	7.51%	0.32%
\$17,000,000,000	Mandatory	Modeled	7.81%	7.51%	-3.95%



3. Ratemaking Overview



3. Ratemaking Overview

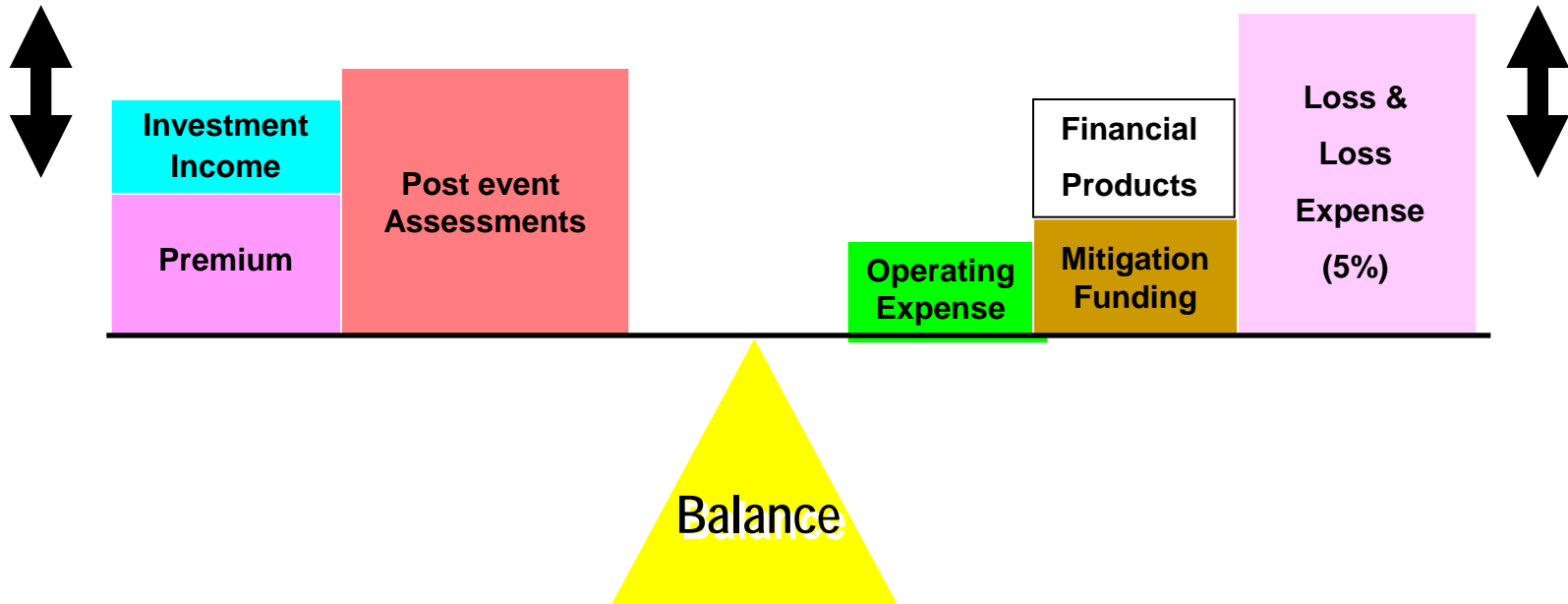
“Now, here, you see, it takes all the running you can do, to keep in the same place.”

Lewis Carroll, “Through the Looking Glass”

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Ratemaking Overview

Where Does the FHCF Get Its Funds? Where Do They Go?



Premiums are derived from the Ratemaking Formula

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Ratemaking Overview

1. Trend 6/30 Prior Year Exposure Data & Send Modelers
2. Combine Results for Industry Excess Loss Costs
3. Add Allocated Loss Adjustment Expenses (5%)
4. Misc. Technical Adjustments
 - **Retention & limit**
 - Law & ordinance
 - Aggregate wind deductible adjustment
 - **Reconciliation to accepted model level (one model)**

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Ratemaking Overview

5. Fixed Loadings

- Operating expenses
- **Expenses for pre-event notes**

6. Allocation to Classes

- Type of business, territory, construction, deductible

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Ratemaking Overview

7. Rating Classifications for Mitigation

- **Year built**
- **Structure opening protection**
- **Roof shape**

8. No TICL Coverage

9. Apply Cash Build-up Factor



4. Premium, Rates and Coverage

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Overall Indications

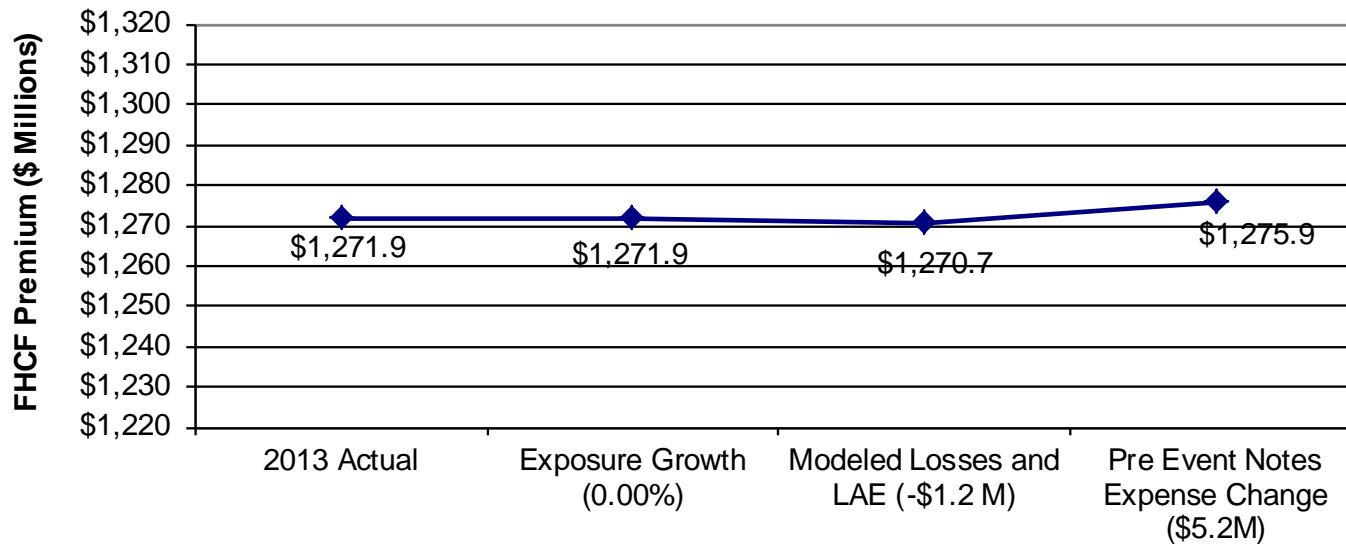
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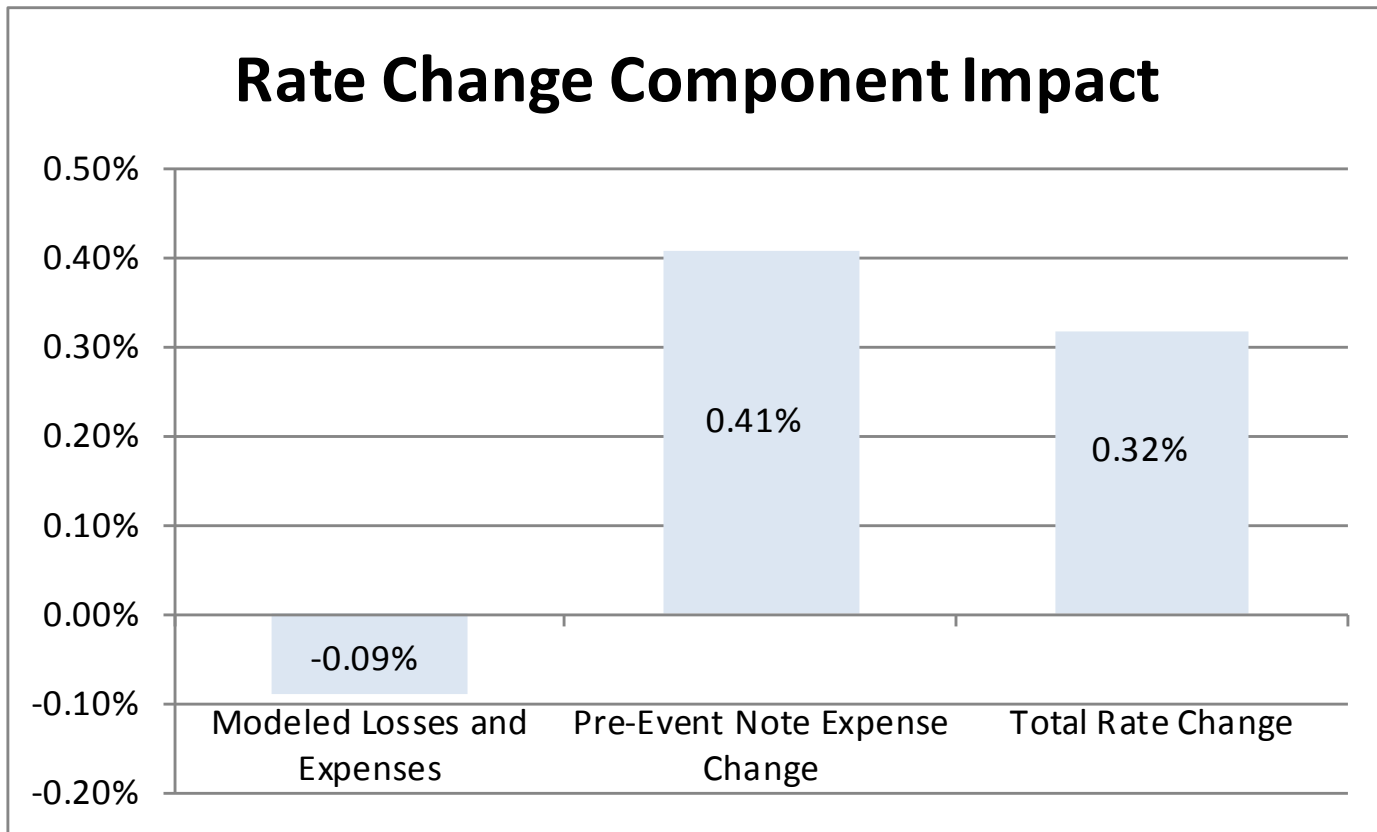
Premium, Rates and Coverage

Components of 2014 Mandatory Premium Change (+0.32%)



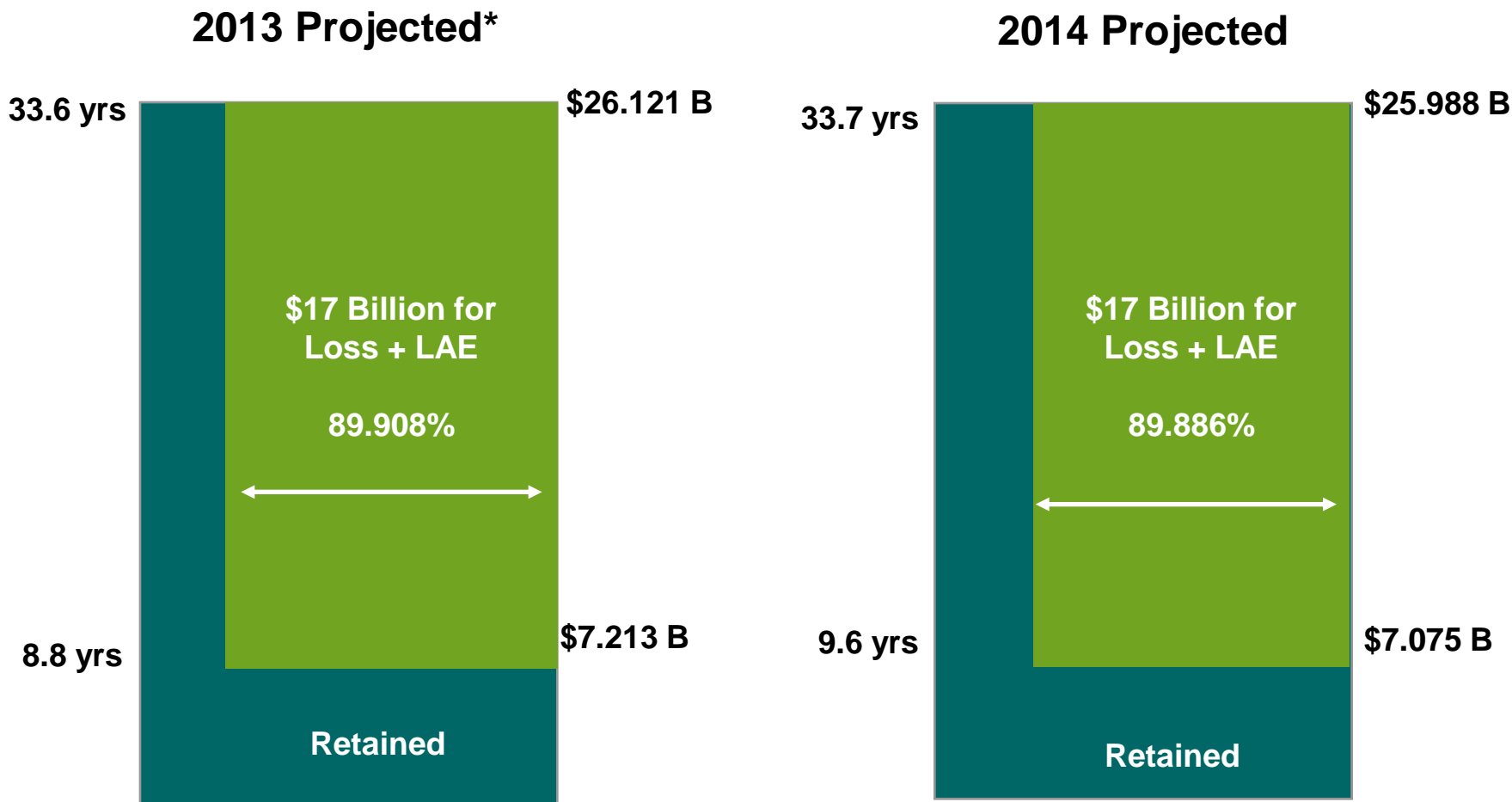
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Premium, Rates and Coverage



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The Covered Layer



* 2013 actual coverage, after all reporting of exposures, was 89.886% of \$18.912 B xs \$6.908 B

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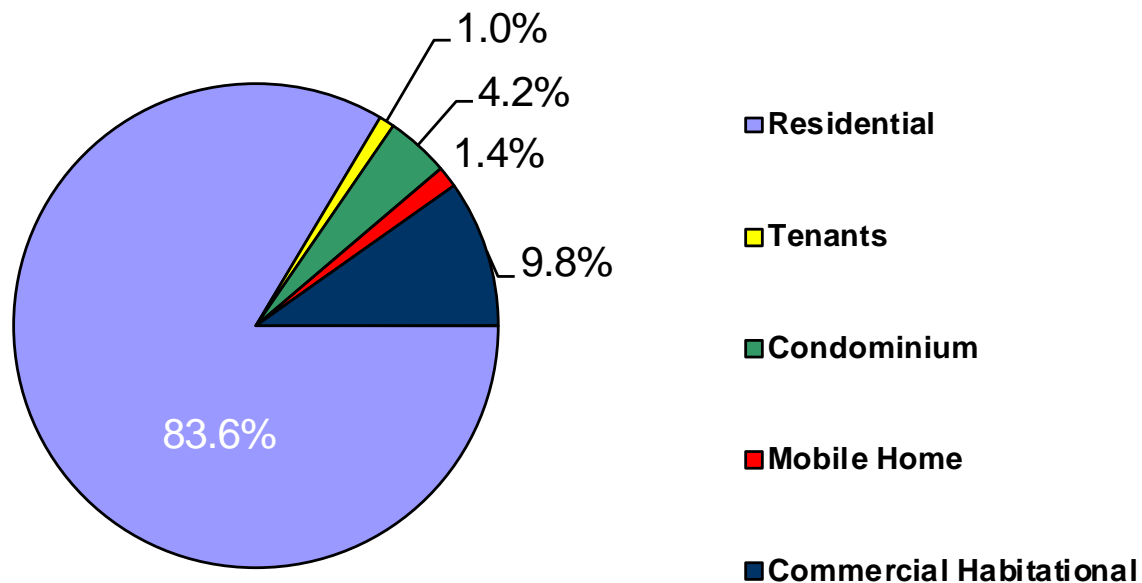
Mandatory Coverage

	2013 Actual	2014 Proposed
FHCF Retention	\$6.908 B	\$7.075 B
FHCF Limit	\$17.000 B	\$17.000 B
FHCF Mandatory Premium	\$1.272 B	\$1.276 B
Coverage	89.886%	89.886%
Payout Multiple	13.3661	13.3240
Retention Multiples for FHCF Coverage Selections		
90%	5.4243	5.5381
75%	6.5091	6.6458
45%	10.8485	11.0763

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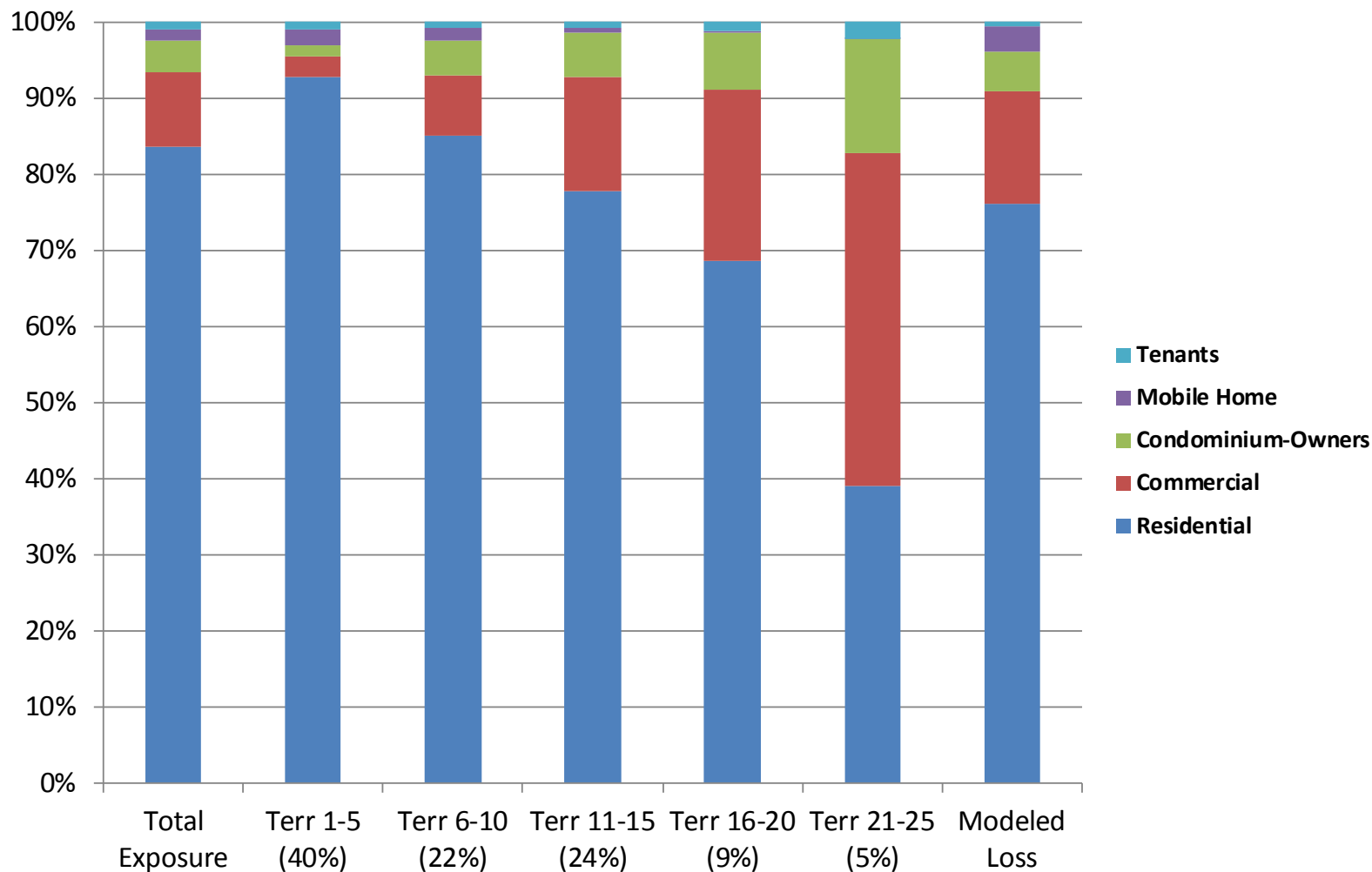
Exposures by Type of Business

2014 Exposure Distribution



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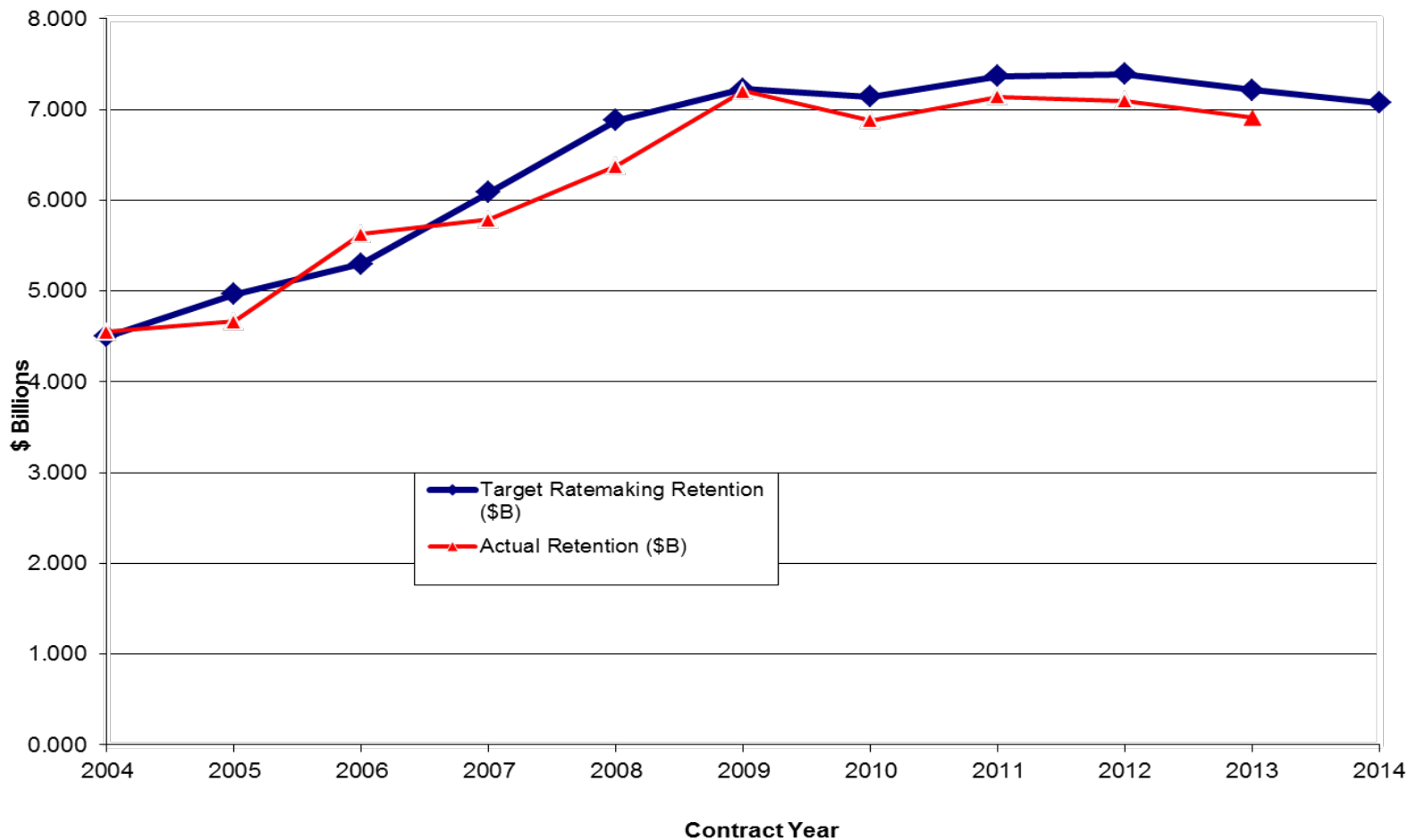
Exposure and Loss by Type of Business



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Retention History

FHCF Retention History

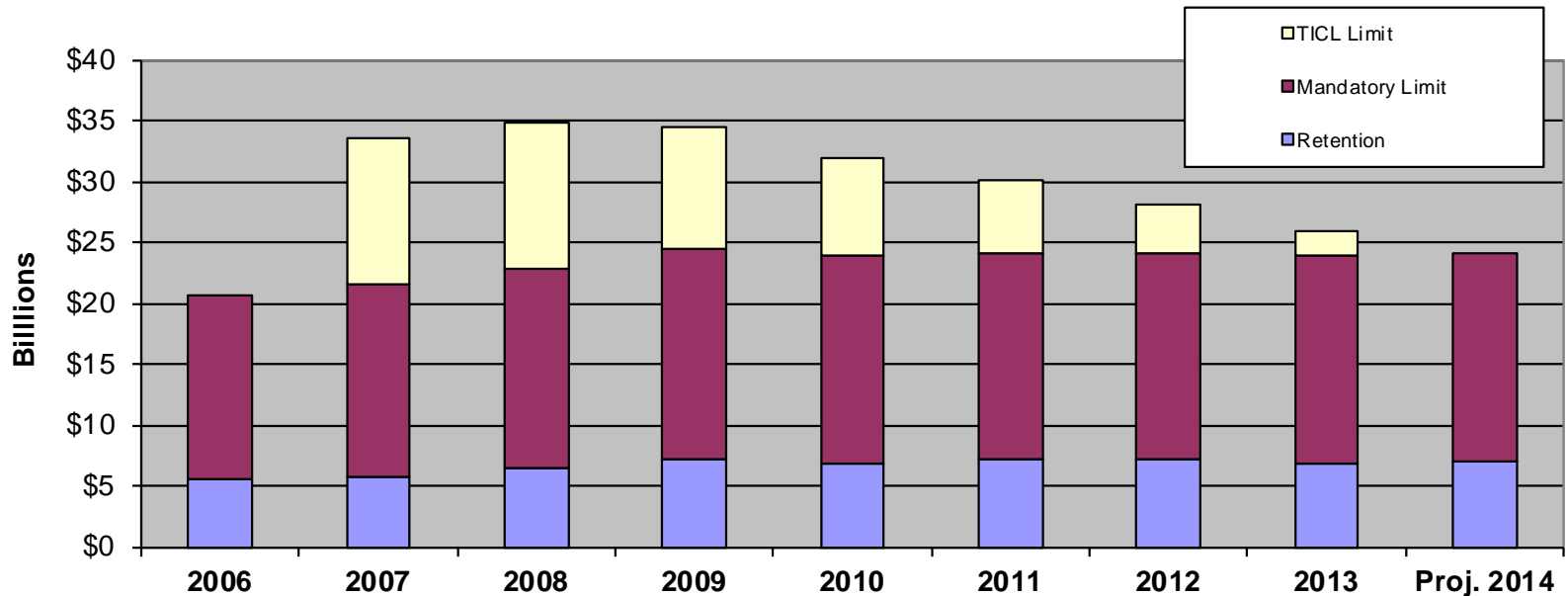


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Limit History

(\$B)	2006	2007	2008	2009	2010	2011	2012	2013	Proj. 2014
Retention	5.627	5.785	6.377	7.204	6.881	7.143	7.097	6.908	7.075
Mandatory	15.000	15.845	16.530	17.175	17.000	17.000	17.000	17.000	17.000
TICL Limit	0.000	12.000	12.000	10.000	8.000	6.000	4.000	2.000	0.000

FHCF Coverage



NO TICL IN 2014



5. Other Topics of Interest

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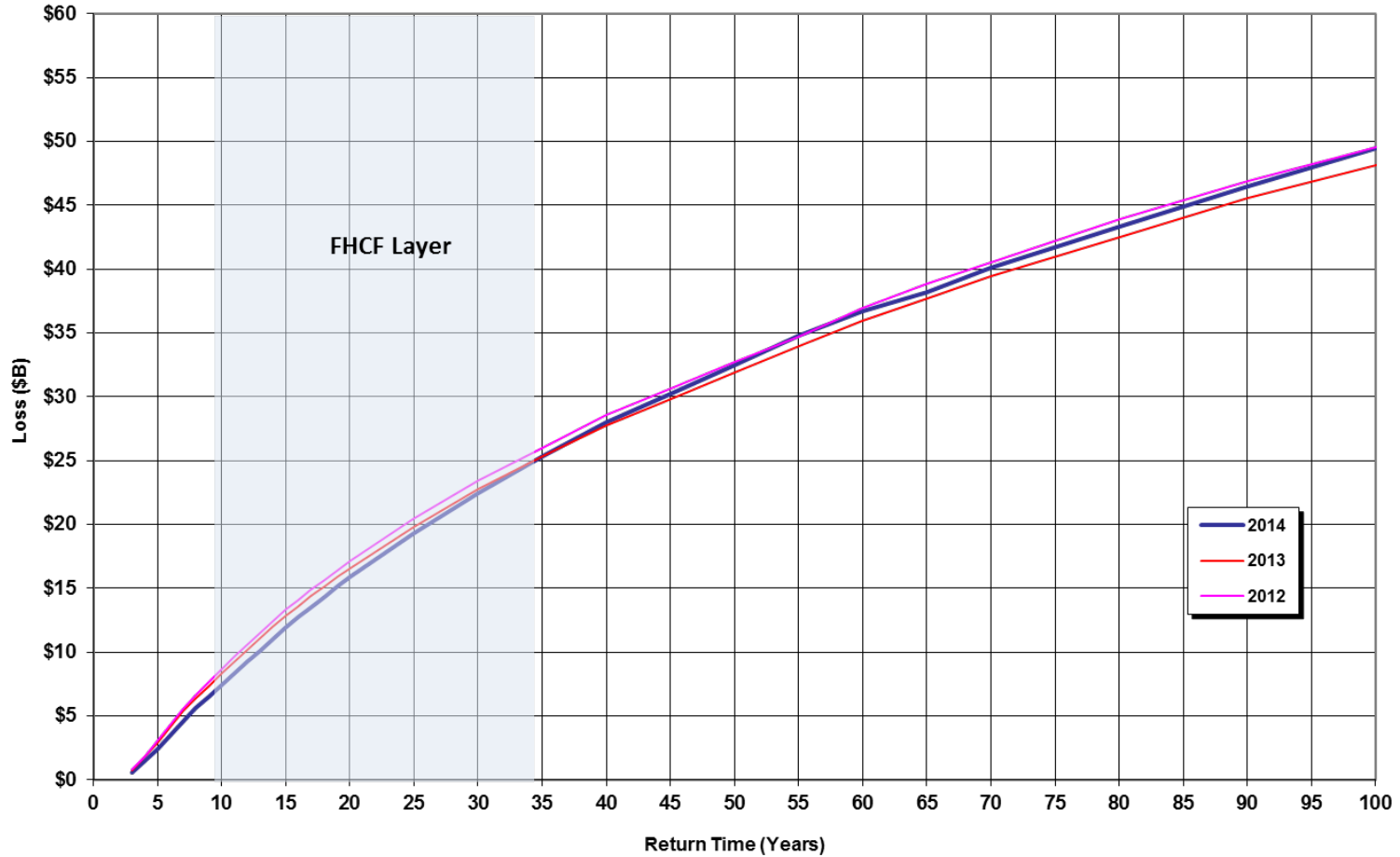
Modeled Losses (\$ Billions)

	<u>2013</u>	<u>2014</u>	<u>% Change</u>
Modeled Exposure	\$2,075	\$2,029	-2.2%
Gross Losses	\$3.517	\$3.315	-5.7%
FHCF Layer Losses	\$0.982	\$0.931	-5.2%
Loss Cost per \$1,000	0.4734	0.4590	-3.0%

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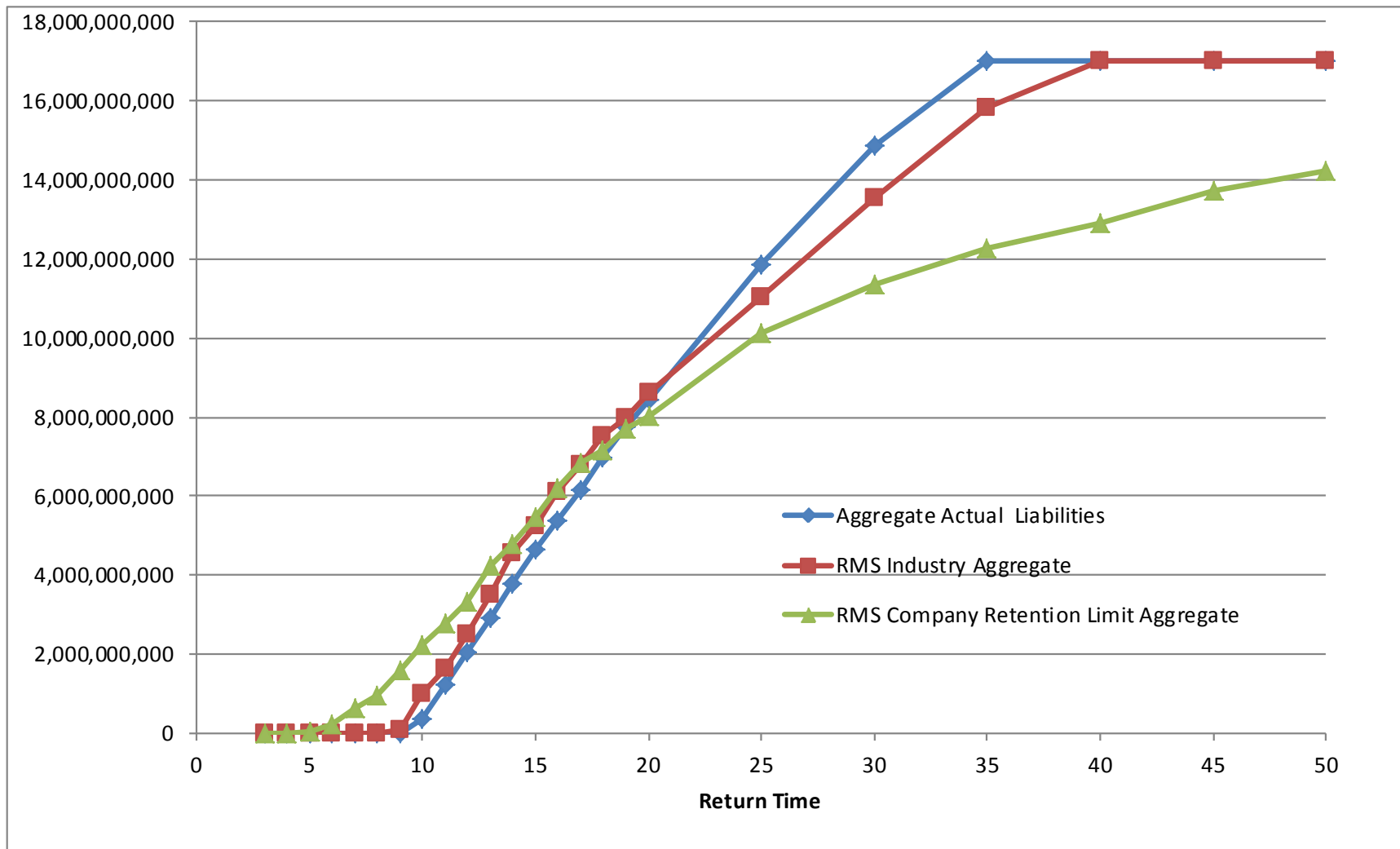
Modeled Losses

Gross Single Event Severity Distribution
(100% Coverage, no LAE)



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Retention Limit Adjustment 2014 Update



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Expense for Pre-Event Notes

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Pre-Event Note Expense Loading
Contract Term: 06/01/2014 to 5/31/2015

2013A Projected Debt Service	
1 Debt Service	29,500,000
2 Total Market Value	2,000,000,000
3 Exp. Default Loading %	0.3%
4 Exp. Default Cost (2)*(3)	6,000,000
Total Projected Liquidity	
5 Facility Cost (1)+(4)	35,500,000

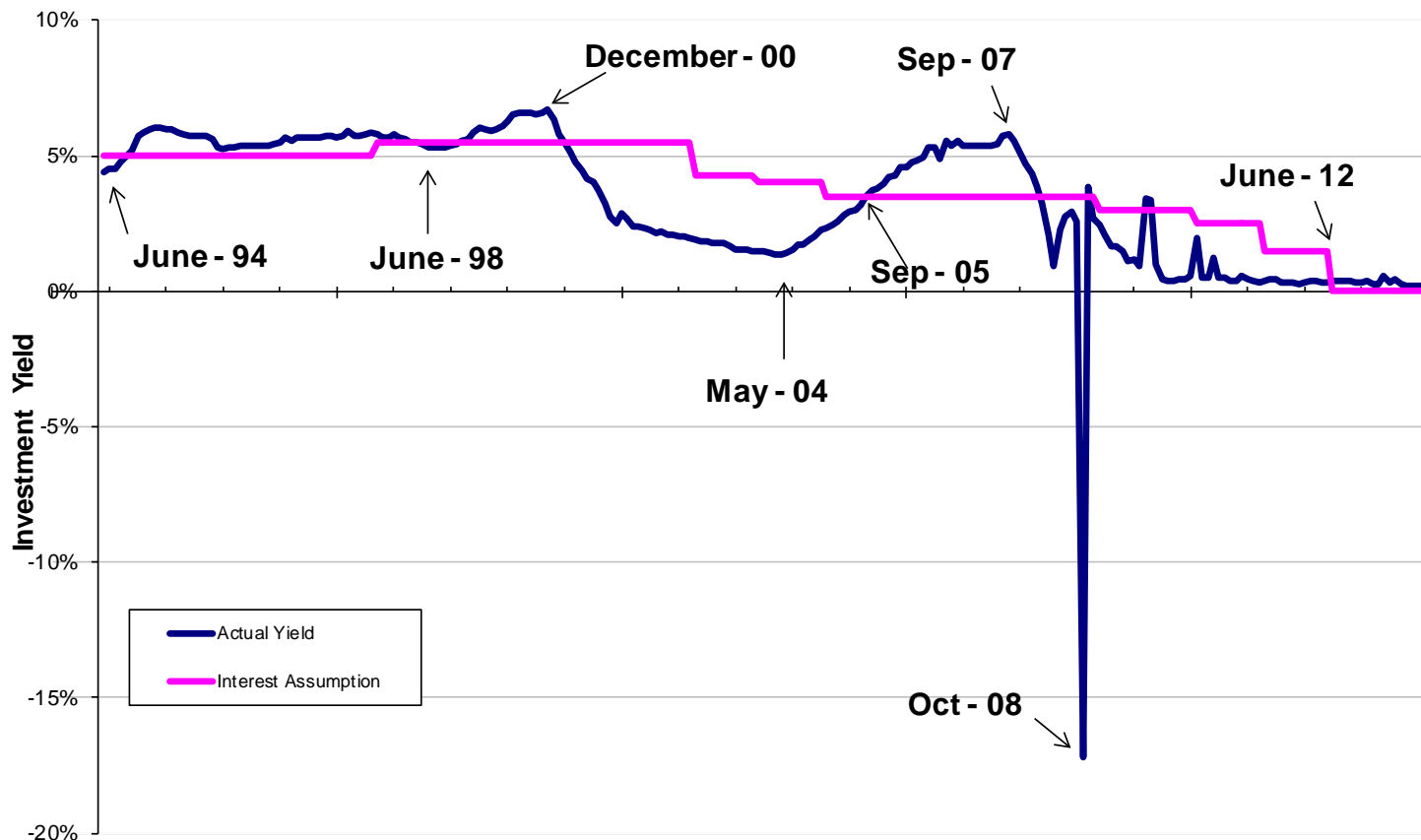
Notes

- This method uses values projected by the FHCF's Financial Advisor, Raymond James - Kapil Bhatia (06/05/2013) plus a judgemental loading for potential asset loss.

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Interest Rate Assumption 0.0%

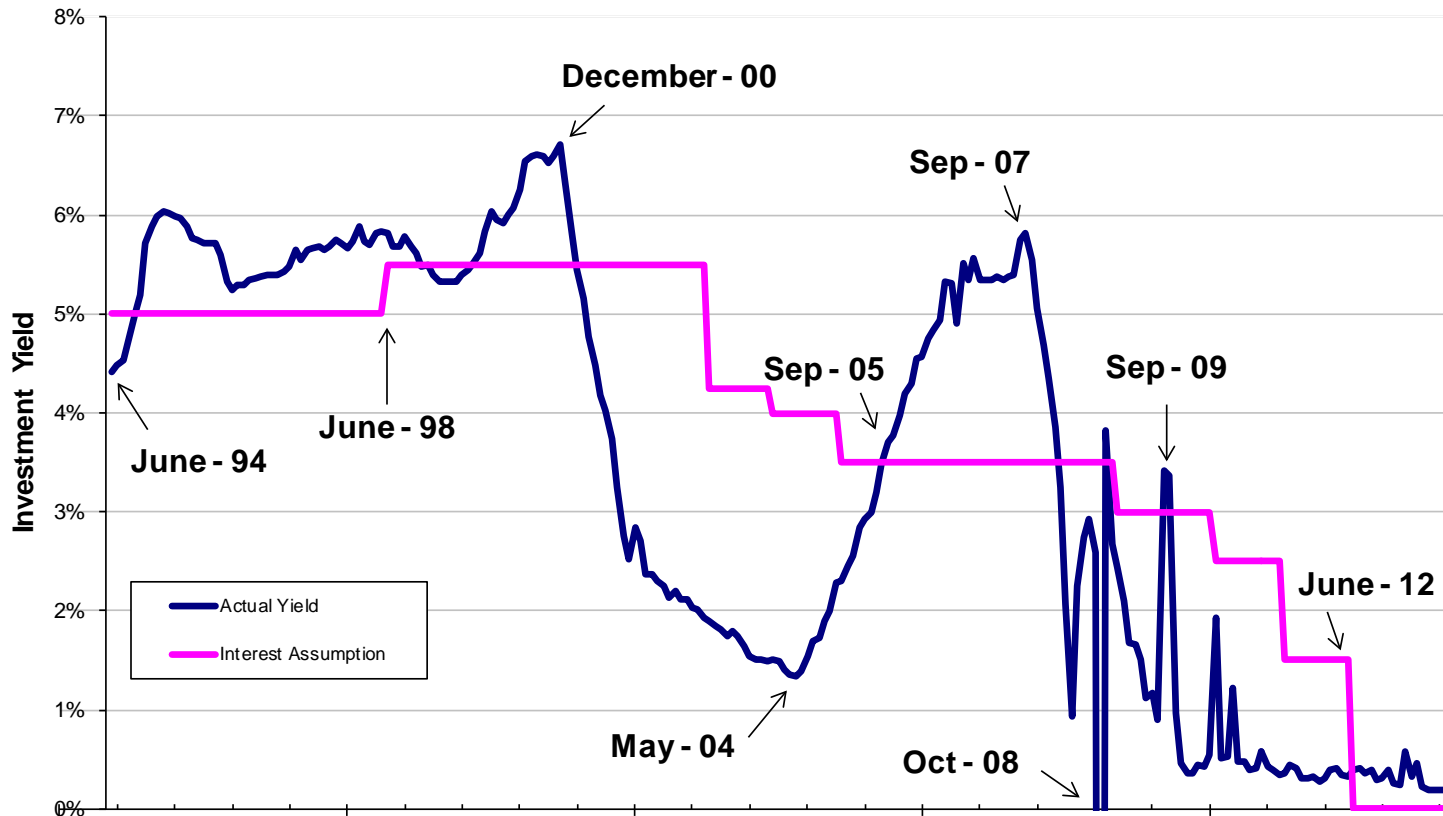
Monthly FHCF Investment Returns



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Interest Rate Assumption 0.0%

Monthly FHCF Investment Returns



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Mitigation Rating Factors

- **FHCF participants are required to adjust primary rates for mitigation**
- **Hurricane models show significant differentiation in risk for exposures with these features**
- **Classifications first used with FHCF rates in 2009**
 - Capped at +/-10% in 2009
 - Capped at +/-20% in 2010 to 2012
 - Capped at +/-30% in 2013
 - Recommended: Uncapped in 2014

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Mitigation Rating Factors

Florida Hurricane Catastrophe Fund 2014 Ratemaking
 Change in 2014 FHCF Premium Due to Increasing
 Mitigation Factor Cap
 Based on 2013 Rates and Reported Exposure Data

Change in Premium	30% to Uncapped Change	
	Company Count	% of Premium
-30% to -25%	0	0.0%
-25% to -20%	0	0.0%
-20% to -15%	2	0.6%
-15% to -10%	6	4.5%
-10% to -5%	9	5.6%
-5% to 5%	130	88.4%
5% to 10%	11	0.9%
10% to 15%	0	0.0%
15% to 20%	0	0.0%
20% to 25%	0	0.0%
25% to 30%	0	0.0%
30% to 35%	0	0.0%
Total	158	100%

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Mitigation Rating Factors

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Windstorm Mitigation Construction Rating Classification Factors

To Calculate the Final FHCF Rate for a risk:

Preliminary factor = (year built factor) x (roof shape factor) x (opening protection factor)

Capped factor = Preliminary Factor*

Final rate = (Base rate) x (Capped factor) x (On balance factor)

**Capped factor = 100% of Preliminary Factor (i.e. no cap in current factors)*

Rating Factor	Description	Type of Business				
		Commercial	Residential	Mobile Home	Tenants	Condos
Year Built	2002 or later	0.6532	0.7181	1.0000	0.6008	0.6524
	1995-2001	0.7009	0.8094	1.0000	0.7201	0.7598
	1994 or Earlier	1.1280	1.1814	1.0000	1.2221	1.1898
	Unknown or Mobile Home	1.0143	1.0750	1.0000	1.0748	1.0642
Roof Shape	Hip, Masard, or Pyramid	0.8458	0.8560	1.0000	0.7512	0.7745
	Gable, Other or Unknown	1.0320	1.0948	1.0000	1.0404	1.0393
Opening Protection	Structure Opening Protection**	0.8555	0.8340	1.0000	0.6932	0.7831
	No Structure Opening Protection	1.0463	1.0826	1.0000	1.0503	1.1033
On Balance Factor		0.9904	0.9832	1.0000	0.9873	0.9892

**Structure Opening Protection Credit requires that primary policy has stucture opening protection credit.

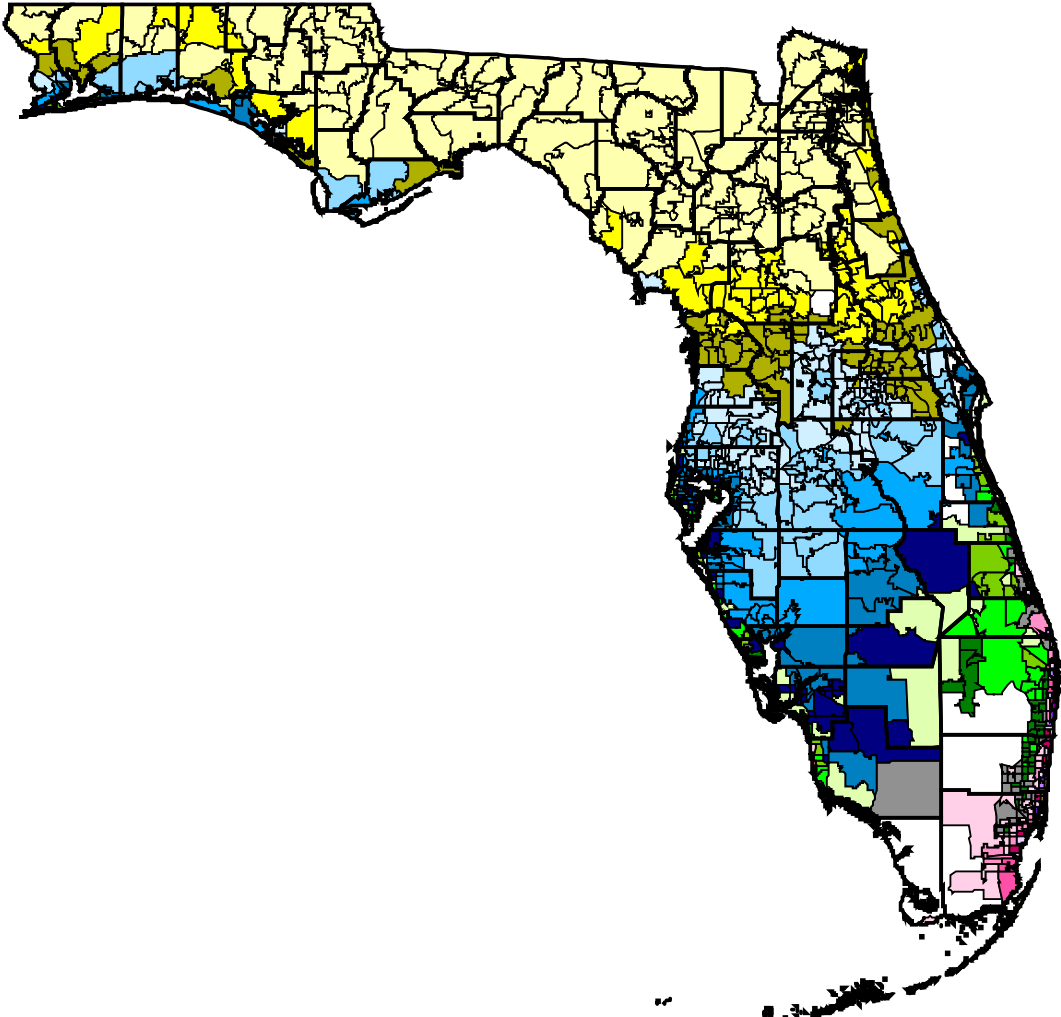
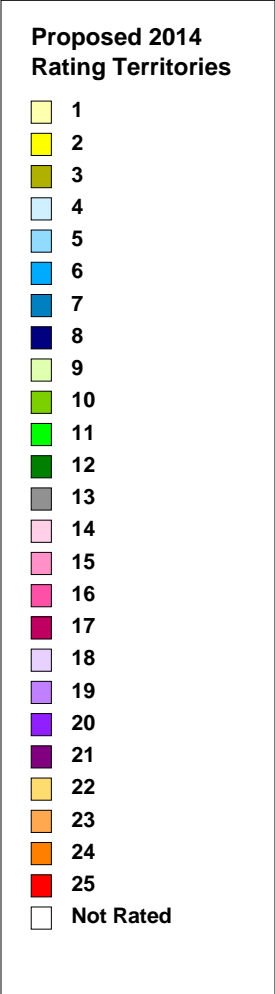
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Loadings and Factors

Adjustment	2012	2013	2014
Adj. to Gross Losses	4.2%	4.2%	4.1%
Post-model	5.0%	5.0%	5.0%
Retention + Limit	1.60%	-0.73%	-0.037%
Investment Income	0.0%	0.0%	0.0%
Operating Expense	\$7,771,000	\$7,640,000	\$7,640,000
Pre Event Note Expense	\$14,139,834	\$31,360,556	\$35,500,000
Financial Product Expense	\$0	\$0	\$0

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Proposed 2014 Rating Territories



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% Rate Changes for 2014

% Change in Rates

Maximum Decrease -42.69%
 Maximum Increase 72.48%

Threshold		Count of ZIP Codes	Percentage of Zip Codes in Group	Residential Exposure (in 000's)	Percentage of Res Exposure in Group	Residential Exposure Risk Counts (Houses)	Percentage of Risk Counts in Group
From	To						
Greater Than	-40%	16	1.09%	8,907,890	0.61%	24,158	0.64%
	-40% -25%	14	0.95%	21,730,880	1.48%	58,346	1.55%
	-25% -15%	92	6.28%	111,575,313	7.59%	278,386	7.41%
	-15% 0%	729	49.73%	718,525,436	48.90%	1,833,031	48.80%
	0% 15%	556	37.93%	579,751,775	39.46%	1,483,100	39.48%
	15% 45%	53	3.62%	28,160,606	1.92%	77,631	2.07%
	45% 65%	0	0.00%	-	0.00%	-	0.00%
	Greater Than 65%	6	0.41%	588,024	0.04%	1,713	0.05%
New ZIP Codes in 2014		1,466	100.00%	1,469,239,924	100.00%	3,756,365	100.00%
		0	0.00%	-	0.00%	-	0.00%
		1,466	100.00%	1,469,239,924	100.00%	3,756,365	100.00%

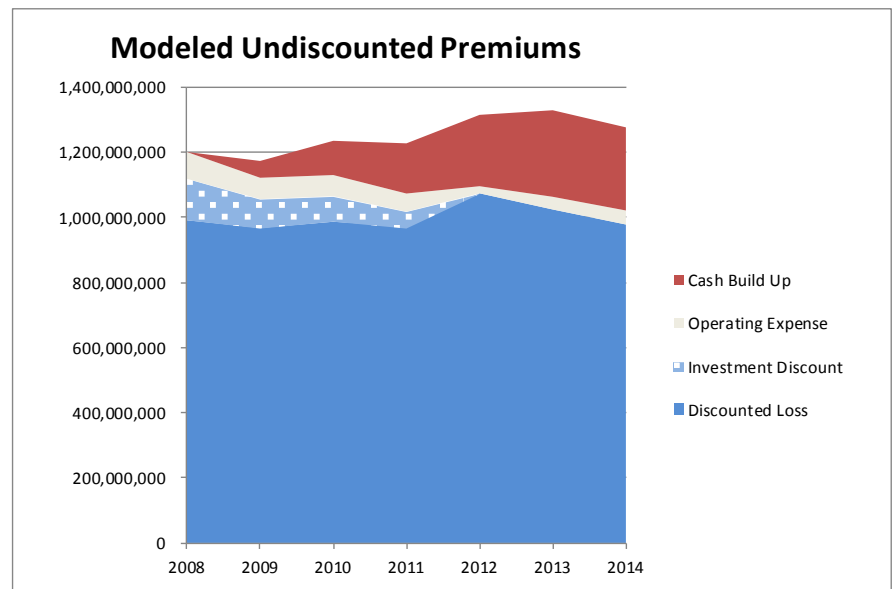
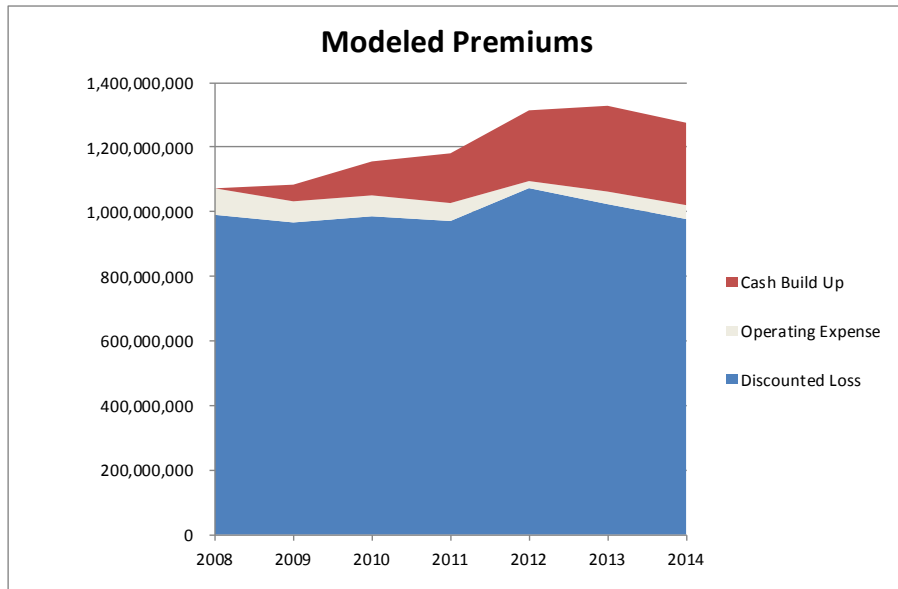


7. Recap

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History of Components

	2008	2009	2010	2011	2012	2013	2014
Discounted Loss	990,619,049	967,000,146	986,038,487	971,475,818	1,073,304,022	1,023,717,879	977,570,704
Operating Expense	82,136,065	65,463,190	64,889,850	55,642,505	21,910,834	39,000,556	43,140,000
Cash Build Up	0	51,623,167	105,092,834	154,067,748	219,042,971	265,679,609	255,177,676
Modeled Premiums	1,072,755,114	1,084,086,503	1,156,021,171	1,181,186,071	1,314,257,827	1,328,398,044	1,275,888,380
Investment Discount	127,479,463	88,670,499	78,563,624	45,594,759	0	0	0
Modeled Undiscounted	1,200,234,577	1,172,757,002	1,234,584,795	1,226,780,830	1,314,257,827	1,328,398,044	1,275,888,380



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8. Questions

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Questions